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UNDERSTANDING AFRICA
A SHORT OR A LONG PROPERTY BOOM?

BY Dr DIRK A PRINSLOO
URBAN STUDIES, JOHANNESBURG SOUTH AFRICA

The interest in the Sub-Saharan Africa property market peaked in 2011, and is since then showing a downward trend. The development plans in 2014 was only one third of what it was in 2011 (*Emerging Trends in Real Estate® The global outlook for 2015, pp. 26-35*).

The question that arises is whether this was an Africa property development bubble, or whether the development drivers are still in place to continue the tempo of development in Sub-Saharan Africa? The answer probably lies somewhere between these two statements. Shopping centres that opened in various African cities recently are reflecting mixed results. Some shopping centres are performing above expectation, while others are well below projected targets. Developers, retailers and investors have started to be more careful to invest in Africa.

During 2015, Sub-Saharan Africa experienced its lowest economic growth rate since the 1998 global financial crisis. High growth rates of above 5% will most probably drop to below 4% in 2016. Low commodity prices, coupled with a slow-down in the Chinese market affected GDP growth to become under severe pressure during 2015 and this trend will most probably continue for the next 2 – 3 years. Local political instability, extreme weather conditions, as well as water, electricity and infrastructure problems, have had an adverse impact on current and projected GDP growth (*Foresight Africa: Top Priorities for the continent in 2016. Africa Growth Initiative).*

GDP per capita growth increased on average 3.4% per annum from 2004 to 2014, but is now expected to drop to between 1.4% and 1.9% for 2016. Based on previous growth rates, the per capita GDP would have doubled in 20 years' time, but based on the existing low growth the per capita income will only double in 40 – 50 years. It will have a major impact on the growth expected to happen in the middle segment of the consumer market. This market also has a direct effect on shopping centre and residential development which will slowdown
(Foresight Africa: Top Priorities for the continent in 2016. Africa Growth Initiative).

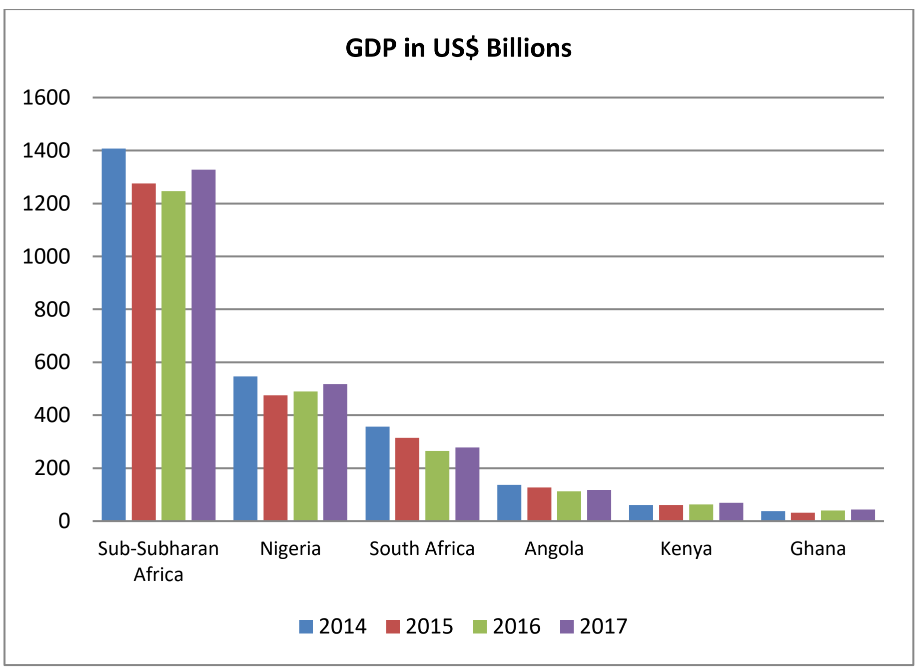
The outstanding aspect regarding property development in Sub-Saharan Africa is not to focus on the region as a whole or specific countries with high GDP growth mainly coming off a low base, but to concentrate on individual cities where real potential exist. The best example is the fact that the economy of Nigeria only expanded by 3% in 2015 which was below 2014's 6.2% and reflected the lowest growth in almost two decades.
(*Focus Economics Consensus Forecast Sub-Sahara Africa, March 2016: p.52).*

The question may be asked: What are the prospects for recovery at this stage? During 2008 Africa faced a global financial shock together with the rest of the world. In 2015, 2016 and 2017, however, the continent faces a triple threat from a changing global environment, including prices of main export products such as oil and metal that have dropped significantly, influenced by low demand mainly because of the slow-down in China, and the further increases in interest rates influencing external borrowing costs. Climate change also plays a major role in east and southern Africa. Commodity prices slumped in 2015, hitting many African economies very hard.

There are specific countries that are more at risk than others. Oil exporters, which include Angola, Cameroon, Chad, the Republic of the Congo, Equatorial Guinea, Gabon, Nigeria, Zambia and South Sudan, will experience major problems because of fuel and mineral exports. In contrast, oil importing countries such as Ethiopia, Kenya, Rwanda and Tanzania, will help mitigate the impact of lower oil prices on the region.

Figure 1 gives an indication of the GDP of Sub-Saharan Africa, as well as the five biggest markets. All countries are showing drops in GDP since 2014. A range of factors resulted in this lower growth, the most important being the low oil price, security threats, political uncertainty, regulatory uncertainties, rising costs, a sliding currency and high dollar rentals. There are a number of other risk factors, other than only population numbers and GDP growth.

FIGURE 1



Source: Focus Economics Consensus Forecast Sub-Sahara Africa, March 2016: p7.

Growth in the largest economies in the region, namely Nigeria and South Africa, is slowing down. Economies exporting the most to China are mostly commodity exporters, and as a result are vulnerable to both a Chinese economy slow down and lower commodity prices.

What is needed to accelerate growth for the next 5 years?

In previous African market reports, eight potential drivers for property growth and development in Africa were identified. (*Emerging Trends in Real Estate® The global outlook for 2015; Real Estate-Building the future of Africa; PWC March 2015*). These drivers include a young population, urbanisation that will continue and the impact on the growth of existing cities, as well as the rise of new cities. The need for more retail facilities was also identified as a strong driver with substantial growth prospects. This driver has now slowed down because of the underperforming of some of the newly opened centres.

The next development driver focused on natural resources, which has become a constraining factor. One of the most important development drivers for Sub-Saharan Africa is the supply of energy where power shortages will impact on further property development. Future technology development as a development driver will influence building practices, consumer behaviour, and the way cities operate. Some of these development drivers are still in place. However, new risks have emerged.

Africa consists of 54 different countries with low connectivity between them. There is no single answer to the question: "which countries to invest in?" Some of the most important risks at the moment are political instability, changing government policies, social instability resulting from inequality, lack of economic diversity with an overdependence on natural resources, legal aspects such as property ownership rights and investment restrictions, the volatility of local currencies against the US dollar, the timeframe of investments, and the restrictions on possible exit strategies. Truworths *(SCSC, TGIF no 327)*, a South African fashion retailer has exited from Nigeria mainly because of the abovementioned risks.

The emphasis so far has been on high population numbers and high GDP growth per country. There is a need to understand the socio-economic and demographic characteristics of the population per city much better. Future opportunities will lie in specific areas in specific cities.

Retail and residential development in the most prominent cities in Sub-Saharan Africa will mainly be driven by the increase in population numbers based on natural growth and an accelerated process of urbanisation, the per capita income per city, and the increase in the middle segment of the market. The biggest challenge in future is to further reduce poverty rates and to improve human development. (*The Africa Technopolitan, January 2016, The Poverty of Development Strategy in Africa*).

The share of people in Africa living on less than $2 a day fell from 56% in 1990 to 43% in 2012. This once again strongly varies between countries. Life expectancy at birth has risen by 6.2 years since the middle 1990s. Despite the drop in the poverty rate, more people are poor mainly because of high population growth.

Urbanisation and urban growth will occur in the large cities of Kinshasa, Lagos and Dar es Salaam. Development in African cities is not only directed to these mega cities, but more so towards the intermediate cities that are directly associated with their surrounding environment. These are also the cities where future growth in terms of shopping centre and housing development will occur.

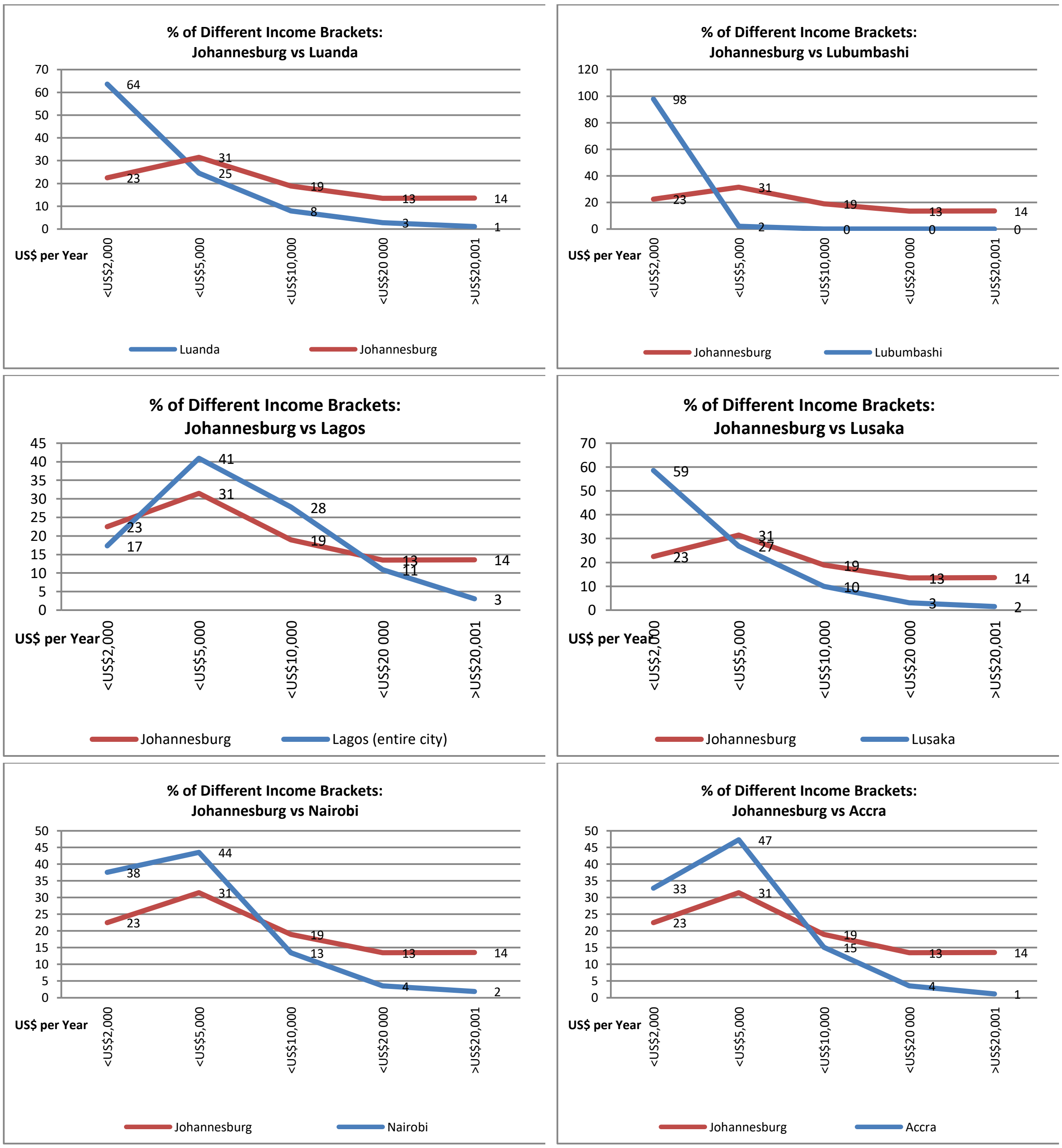
One of the most important problems in Sub-Saharan Africa cities is the facts that up to 60% of the urban population live in slum areas with no access to basic services and infrastructure. As far as urbanisation in Sub-Saharan Africa is concerned, it is expected that the urban dwellers will increase from 400 million in 2010 to 1.26 billion in 2050. The continent's urbanisation rate is also expected to reach 50% by 2037. This growth demonstrates a great need for better urban management and planning, but most important, the creation of jobs and better living conditions. In the coming decades migration towards Africa's cities will account for 90% of the population movement. (Foresight Africa. Top Priorities for the continent in 2016. Africa Growth Initiative, pp64-69)

Most Africa reports are referring to the rapid increase in the middle segment of the market. A large African middle class is emerging, estimated in 2010 at nearly 330 million people. (*Real Estate-Building the future of Africa; PWC March 2015*). The 11 fastest growing countries in Africa will have increased their middle class from 15 million households to 40 million households. This is a very strong oversimplification of what is happening in specific countries and specific cities. In countries like Nigeria and Angola 80% – 90% of the GDP is earned through oil export, and most of this money has not yet filtered through to the lower and middle segments of the market.

Figure 2 clearly indicate the difference between Johannesburg where a strong middle market exists, compared to other African cities, and the strength of their middle income segments. From these graphs it is clear that in most cities the middle segment of the market does not even exist, and will take a long time to develop into a segment that drives property development. This segment in South Africa is large in size and one of the main reasons for residential and shopping centre growth. Lagos, Accra and Nairobi are the three cities with higher representation in the lower and middle mark but still with a small affluent market.

FIGURE 2

% of Different income rackets - Johannesburg vs 6 other cities



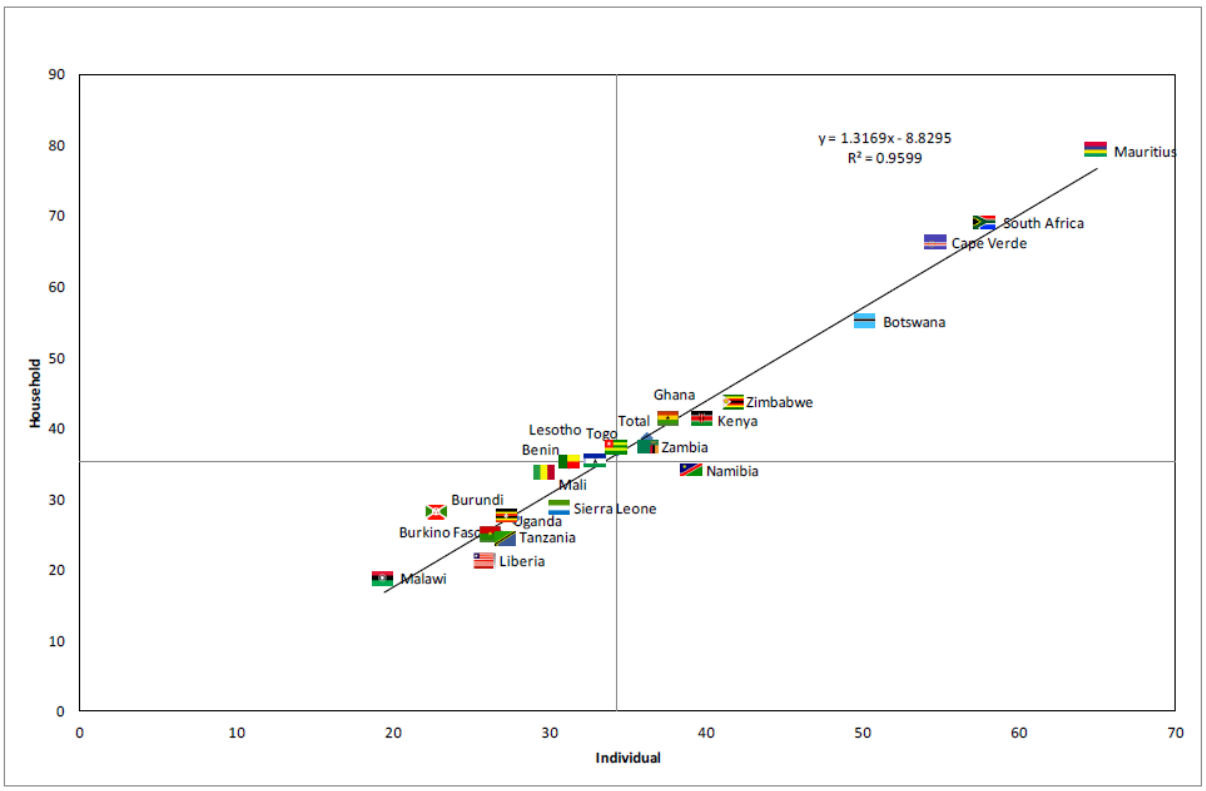
Source:

RMB Global Market Research, 2014/2015 Edition: Where to Invest in Africa, pp 114-116.

The Pan African Media Research Organisation is in the process of developing a Pan African Socio-Economic Status Measurement similar to South Africa's LSM classification. In the latest report released by Higgs & Swanepoel (*2015, Pan African Socio-Economic Status Measures by TNS*), a number of countries were rated according to a set of different socio-economic variables. The information was captured per household as well as per individual. Figure 3 clearly indicates different countries correlating with those countries with the highest development opportunities. Rated highest at the top end of the market is Mauritius, South Africa and Botswana, and a number of countries in the middle segment including Ghana, Kenya, Namibia and Zambia, while the countries at the lower end of the market also indicated low property development potential, including Burundi, Malawi, Mali and Uganda.

FIGURE 3

SOCIO-ECONOMIC STATUS MEASURE FOR SELECTED AFRICA COUNTRIES



No data available for Nigeria, Angola and Mozambique

Source: Higgs and Swanepoel, 2015: Pan African Socio-Economic Status Measures by TNS.

In the abovementioned section different cities with potential were compared to Johannesburg. It is important to understand the level of activities in South Africa compared to other Sub-Saharan African countries. The following indicate the differences but more importantly the scale of business and associated opportunities.

- The GDP per capita of South Africa is amongst the top three in Africa (*Focus Economics Consensus Forecast Sub-Sahara Africa, March 2016:7*).
- South Africa is ranked 6th in the world in terms of the number of shopping centres (*Urban Studies, June 2015, 20 Year of shopping centre success*). There were 1.5 million m² of shopping centre space in various phases of development during 2014/15 of which most are or will be built while there were ± 900 000m² committed shopping centre space in the whole of Africa. Many proposed centres are now on hold.
- The office sector in South Africa consists of 17.3 million m² of A to C-grade office space, while the rest of Africa only has a total floor area of just more than 6 million m².(*Viruly, SA Property News 26 January 2015*).
- 60% of the electricity consumption in Sub-Saharan Africa is in South Africa (*Power, People, Planet: Seizing Africa's Energy and Climate Opportunities. Africa Progress Report, 2015*).
- 31% of South African residents live on $2 a day, compared to Nigeria where 85% live on $2 a day (*Real Estate-Building the future of Africa; PWC March 2015*).

It was mentioned earlier that the property boom in Africa peaked during 2011, and is currently one third of that. A number of drivers have remained the same, while more risk drivers have emerged, as discussed above. The following comments were made by South African companies operating in Africa:

- Truworths *(SCSC, TGIF no 327)* has decided to withdraw its operation from Nigeria. The main concerns were regulatory uncertainties, rising costs, logistics, dollar rentals, and to move money from areas like Nigeria to South Africa.
- MassMart (*Yearend Results Presentation, Dec 2015*) referred to the oil dependent countries showing declines, while the other countries have stabilised at lower economic levels. Severe currency weaknesses are being experienced. Long-term potential does exist, but requires a measured long-term and cautious approach.
- Mr Price (*Mr Price Interim Results Presentation, September 2015*) is positive about performances in South Africa, while Africa is regarded as a long-term potential with short-term pain. Most of Mr Price's growth is from neighbouring countries such as Namibia, Botswana, Zambia and Swaziland.
- According to Real Capital Analyst, (*Emerging Trends in Real Estate® The global outlook for 2015, pp. 26-35*) sales of large size properties across Africa topped sales of US$ 2.17 billion in 2014, and South Africa accounted for US$ 2 billion of that total.
- The performance of Shoprite in Africa, where the 200th supermarket was opened at the beginning of 2016, will see growth. The involvement is seen as a long-term commitment (*Shoprite announcement 23 February 2016*).

In conclusion, there are very specific opportunities for property development in Africa. This must be led by city-specific information and research, the economic base, population growth, the level of urbanisation, the per capita income, the socio-economic status, and shopping behaviour and patterns of the local population. The emerging middle market is still very small in specific cities, while potential exists to tap into this particular market in particular areas of growing cities. The question whether this was a bubble, must be seen in two ways:

- Yes, the property development focus was driven by high GDP growth and large population numbers in a market that needs much more understanding and the use of accurate data sets,
- No, the property market will continue growing in those areas where the market profiles, the economic base, the political will, and fiscal calculations are in favour of developers and store owners.

Future development potential will depend on local market conditions and the correct understanding of micro economic drivers. The macro-economic conditions of a particular country are very important but are also susceptible to world changes that could adversely influence future property development.

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